Franchise Sector Support Program

QPR for July – December 2015

For

The African Development Bank

Submitted

February, 2016

1. Introduction to the franchise sector support program (FSSP)

1.1. Information and data

Country:	**Egypt**
Project title:	Franchise Sector Support Program
Executive: agency:	Social Fund for Development,
Report number:	22nd Quarterly Progress Report
Reporting period:	July – December,2015
Report Submission Date	February, 2016
LOAN	
Loan Number	2000130003730
Loan Amount	USD 40,000,000
Date of Loan Signature	May 28th, 2009
Date Loan Declared Effective	June 14th, 2010
Date of 1st Disbursement	**October 12th, 2011** (amount USD 3,365,700)
Date of 2nd Disbursement	**July 11th, 2012** (amount USD 4,975,124)
Date of Last Disbursement	December 31st, 2015 **(extended to December 31st, 2016)**
GRANT (Completed)	
Grant Number	5700155000651
Grant Amount	USD 950,000
Date of Grant Signature	November 17th, 2009
Date of First Disbursement	April 12, 2010 (amount USD 475,000 representing 50%)
Total Disbursed-to-Date: Grant	US$950,000.00 (100%)
Closing Date:	December, 1st 2014 **(Grant Completed)**

2. Organization and management during the reporting period

2.1. Program Implementation Stakeholders

The FSSP is implemented by the SFD. A layered approval system, however, requires that the AfDB provide statements of "No-Objection" to expenditures and other major decisions under the program, ensuring additional AfDB fiduciary oversight of the implementation process by the SFD.

Within the SFD itself, different stakeholders from several divisions and departments have partial roles for various aspects of the decision-making 'chain' regarding the FSSP. Technical activities which involve the FSSP Loan

are led by the Central Sector for Small Enterprises Finance, while technical activities that involve the FSSP Grant are directly managed by the Franchise Department. The SFD's International Cooperation Section provides a horizontal level of central coordination, including ensuring general procedural compliance with AfDB regulations as well as serving as the official FSSP communication point for the AfDB (see Table 2.1 below).

TABLE 2.1: KEY FSSP STAKEHOLDERS AT THE SFD

LOAN / GRANT ACTIVITY AREA	KEY IMPLEMENTATION STAKEHOLDERS
Loan (Technical Matters)	
Lending Activities Oversight:	**Ms. Nevine GAMEA; Director of the Small Enterprises Financing Central Sector**
Banking Relations Activities:	**Mr. Amr ELWY; Deputy General Manager, FSD**
Direct Lending Activities:	**Mr. Hany EMAD; Assistant General Manager, FSD**
International Cooperation Coordination Compliance and SFD-AfDB Focal Point:	**Ms. Howaida El-HAWARY; Head of Monitoring of Agreements Sector**

3. Loan-related operational activities during the reporting period

3.1. Disbursements from the AfDB to the SFD

There were no loan-related disbursements requested from the AfDB by the SFD during the reporting period.

Previous disbursements from the AfDB under the FSSP loan were received by the SFD on 12 October, 2011, in the amount of US$ 3,365,700 for the first tranche, followed by a receipt by the SFD on 11 July, 2012 of US$ 4,975,124 for the second tranche. Together, these represent all disbursements made to the SFD since the loan became effective on June 14th, 2010, for a total of US$ 8,340,824 representing 20.85% of the total facility of US$40,000,000 under the FSSP (see Table 3.1 below).

TABLE 3.1: AFDB FSSP LOAN DISBURSEMENTS TO THE SFD

All figures expressed in US Dollars

ITEM	AMOUNT		RELEVANT DATE
Total Loan Facility	$ 40,000,000	(100%)	14 June, 2010
Disbursement #1	$ 3,365,700		12 October, 2011
Disbursement #2	$ 4,975,124		11 July, 2012
Total Disbursed to-Date	$ 8,340,824	(20.85%)	Dec., 2015
Undisbursed Balance	$ 31,659,176	(79.15%)	Dec., 2015

3.2. Direct Lending to End-Beneficiaries by the Executing Agency

Previously, the SFD received the AfDB's 'No-Objection' to provide direct loans from the FSSP's loan facility on 20 May, 2012, for a maximum of US$ 10,000,000 (representing 25% of the loan facility's total value) to be used through the direct lending mechanism. Only one beneficiary in Assiut Governorate has received a loan on 14/7/2014 amounting LE 155,332.

3.3. Indirect Lending to End-Beneficiaries by Partner Financial Intermediaries (PFIs)

Indirect lending involves loans made to End-Beneficiaries by financial intermediaries. There were three FSSP financial intermediaries (the National Bank of Egypt * - NBE, the Industrial Development and Workers Bank of Egypt - IDWB and Audi Bank) who act as 'Partner Financial Intermediaries' (PFIs) under the FSSP.

In prior periods, contractual arrangements were reached between the SFD and each of the three partner banks to permit them to act as PFIs. A total value of up to LE 90,000,000 (around US$12,840,000 as of 30 September, 2015 at an approximate exchange rate of US$1 = LE 7.01) has been negotiated for potential transfer from the SFD to the banks as an outcome of these contracts, with allocations of LE 50,000,000 to NBE *, LE 30,000,000 to IDWB and LE 10,000,000 to Audi Bank.

To-date, based on activity in prior reporting periods, a total of LE 20.000.000 has been transferred by the SFD to the two banks (IDWB and Audi Bank)*, with a total of LE 10,000,000 transferred to IDWB in a single tranche (in February, 2012), a total of LE 10,000,000 transferred to Audi Bank in four equal tranches (respectively in February and October of 2012, June 2015 and October 2015) (see Table 3.3 below).

Based on data from previous reporting periods, **Audi Bank** has utilized a portion of the funds received under FSSP (around L.E 9,767,821) to the benefit of 10 End-Beneficiaries.

Also **Industrial Development and Workers Bank (IDWB)** has utilized a portion of the funds received under FSSP (around L.E 9,500,000) to the benefit of 9 End-Beneficiaries.

*** Cancelling the contract with NBE:**

- Contract signed on 26/9/2012 with total amount of LE 50 M.
- First tranche transferred to the NBE on 4/6/2014 with total amount of LE 25 M.
- The NBE didn't disburse any amounts to end beneficiaries since the contract signature date until the end of the third quarter of 2015.

- After almost 14 months of transferring the 1st tranche, and after a reasonable period of negotiations with the NBE, this bank fully refunded the unutilized amounts of LE 20 M on 11/8/2015 (in addition to the previously repaid four instalments totalling LE 5 M). Accordingly, this contract has been cancelled completely at the said date.

TABLE 3.3: FSSP DISBURSEMENTS TO IMPLEMENTING AGENCY PARTNER BANKS AND UTILIZATION

Implementing Agency (Partner Banks)	Date Of Contract	Amount Contracted (LE Million)	Disbursement Date	Amount disbursed by SFD/FSSP (LE Million)	% Actual utilization by end-beneficiaries
Audi Bank	22/1/2012	10 M	1/2/2012 17/10/2012 17/6/2015 4/10/2015	2.5 M 2.5 M 2.5 M 2.5 M	**97.7% (LE 9,767,821)**
Industrial Development and Workers Bank (IDWB)	17/1/2012	30 M	7/2/2012	10 M	**95% (LE 9,500,000)**
National Bank of Egypt (NBE)	26/9/2012	**50 M (Contract Cancelled)**	4/6/2013	**25 M (Amount returned upon cancelling the contract)**	**0%**
Total		**40 M**		**20 M**	

*All figures expressed in Egyptian Pounds

4. Issues and Recommendations:

- During the last supervision mission of the FSSP, from June 9-12 , 2014, the SFD and the Bank had extensive consultations on the progress made under the line of credit component giving due consideration to the slow market response which has been greatly affected by the 2011 revolution and the instability of the transitional period. It was agreed that the FSSP TA grant had created some awareness on franchising and provided the participating banks with training on franchise lending; however this was not sufficient to guarantee full ownership and commitment to franchise lending particularly under the current market context.
- Hence, in order to maintain some of the momentum achieved and continue developing the franchise lending market, it was proposed that a 5% of the line of credit would be dedicated to franchise lending (ie USD 2 Million) to allow SFD's direct lending and/or participating banks to continue their efforts in promoting franchising, while the rest of the amount, USD 38 M would be channeled to SMEs in general. Given that small-scale franchising is part of the larger MSE financing, this arrangement would allow the continuation of efforts in support of franchise lending whilst availing financing to other MSEs at the same time.

According to the above:

- ***On July 20th, 2014 the SFD submitted to the MoIC a request for the AfDB's approval on re-aligning the purpose and targeted groups of the FSSP Loan Agreement to provide financial support to small projects working in all economic sectors in Egypt (instead of those related to***

the Franchise sector only) according to SFD's credit policy and regulations (through contracts with financial intermediaries "banks" as well as direct lending).

- ***The SFD obtained the AfDB's no-objection to extend the closing date of the project for another year, and a consultant has been recruited to revise the Project Appraisal Report (PAR) in line with the required re-alignment so that the document can be submitted to the Board of the Bank for approval. The consultant (Dr. Aliaa Soliman) was recruited by the beginning of December 2015, and she received all the support from SFD as she revises the PAR.***
- ***As an initial results of the consultant mission; the SFD submitted a request to the MoIC (in February 2016) to provide the SFD with the approval to proceed on utilizing the remaining fund of the USD 40MM FSSP agreement to grant loans/credit facilities to clients under the Gamietty project through NBE as well as AIBK and/or other banks and with the terms & conditions of the Gamietty Project as agreed with the Ministry of Internal Affairs as well as SFD's credit policy.***
- ***After obtaining the Bank's approval, the SFD will start utilizing the amounts available at SFD FSSP funds after which requesting a new withdrawal under the FSSP Loan.***

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